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## Capital Budget Committee

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### HB 2180

**Brief Description:** Issuing bonds for outdoor recreation purposes.

**Sponsors:** Representatives Dunshee and Simpson.

#### Brief Summary of Bill

- Authorizes the State Finance Committee to issue up to \$500 million in bonds to finance acquisition, preservation, and development of recreation areas and facilities.
- Establishes the Parks and Outdoor Recreation Account, and equally divides the moneys for athletic fields and for improvements at State Parks.
- Creates an admission tax of one percent beginning in 2005, increasing to five percent in 2009, and deposits these moneys into an account to pay the debt service on the parks and outdoor recreation bonds.
- Requires professional sports teams that do business in Washington to apportion their income for the purposes of determining taxable amounts under the Business and Occupation tax, and deposits these moneys into an account to pay the debt service on the parks and outdoor recreation bonds

**Hearing Date:** 3/3/05

**Staff:** Jeff Olsen (786-7157).

#### **Background:**

##### Youth Athletic Facilities Grant Program

The Interagency Committee for Outdoor Recreation (IAC) may prepare and update a strategic plan for the development and maintenance of community outdoor athletic fields. The IAC manages the Youth Athletic Facilities grant program for acquiring, developing, equipping, maintaining, and improving youth and community athletic facilities. The program was approved by Washington voters as part of Referendum 48, which provides funding for the Seattle Seahawks stadium. An initial \$10 million was contributed by the Seattle Seahawks in December 1998. Anticipated revenues from non-expended Seahawks stadium bond monies and other sources are not expected in the next several years.

##### State Parks and Recreation Commission

The Washington State Parks and Recreation Commission (Commission) manages a diverse system of 120 parks and a variety of recreation programs, including boating, cross-country skiing and snowmobiling. The park system consists of many different types of facilities and historic buildings. The Commission has identified a backlog of major maintenance estimated at \$40 million, with capital facilities needs estimated at \$300 million over 10 years.

#### Local admissions taxes

Cities, counties, and public facility districts are authorized to impose taxes on the price paid for admissions to events. The tax may apply to season tickets, cover charges, charges for the use of recreational facilities and equipment, and charges for parking of vehicles if the charge is related to the number of passengers. Also, charges for food and beverages may be included in the price subject to tax if entertainment is provided. The maximum rate of tax is five percent of the price, except with respect to the Mariners' and Seahawks' stadiums in Seattle where the maximum rate is ten percent.

#### Business and occupation tax application to professional sports teams

Washington's major business tax is the business and occupation (B&O) tax. The B&O tax is imposed on the gross receipts of business activities conducted within the state, without any deduction for the costs of doing business. The tax is imposed on the gross receipts from all business activities conducted within the state. Revenues are deposited in the state General Fund. A business may have more than one B&O tax rate, depending on the types of activities conducted. The tax rate for most types of businesses that provide services is 1.5 percent.

In general, for businesses that engage in services both within and without the state, the B&O tax requires that the business apportion its income for the purposes of applying the tax. Income apportionment is a method under tax law to allow taxpayers to allocate income to specific geographic areas for the purposes of applying business taxes, when it is not clear where the income was derived. This allocation is made by applying to the income specific factors related to sales, wage payments, property, or other measures that may be identified based on location. By rule issued in 1956, the Department provided a specific exception to the apportionment method requirement with respect to professional sports teams. Under the rule, state B&O tax is applied to all income earned from in-state games, even though some of these receipts may be paid to out-of-state teams. Conversely, the B&O tax does not apply to any income earned by visiting out-of-state teams.

#### Referendum

Under Article II, section 1 of the Washington State Constitution, the Legislature may order a referendum on a bill passed by the Legislature. Referendum bills are filed with the Secretary of State and submitted to the people at the next succeeding regular general election. The veto power of the Governor does not extend to acts referred to the people.

#### **Summary of Bill:**

The State Finance Committee is authorized to issue up to \$500 million in general obligation bonds over 10 years for the purpose of providing funding for acquisition, preservation, and development of recreation areas and facilities. No bonds authorized may be offered for sale without prior legislative appropriation. Proceeds from the sale of bonds are deposited in the newly created Parks and Outdoor Recreation Enhancement Account (account). Moneys in the account are

equally divided for Youth or Community Athletic Facilities and the State Parks and Recreation Commission for improvement of state parks facilities.

A Parks and Outdoor Recreation Enhancement Bond Repayment Account is created, and the State Finance Committee shall certify to the State Treasurer on or before June 30 of each year the amount needed over the next 12 months to meet bond retirement and interest payments.

A new statewide tax is imposed on the admission to any event within the state. The measure of tax is the price of admission, the same measure used for local admissions taxes. For the state fiscal biennium beginning July 2005, the tax rate is 1 percent; for the state fiscal biennium beginning July 2007, 3 percent; and beginning July 1, 2009 and thereafter, 5 percent. Receipts must be placed into the Parks and Outdoor Recreation Enhancement Bond Repayment Account. The administrative provisions associated with other state excise taxes apply to the new tax.

The B&O tax is amended to require that professional sports teams use a specific formula for the apportionment of income under the B&O tax. The formula relies on a factor based on property used in and out-of-state; payroll within and without the state; and sales within and without the state. The property portion must represent 25 percent of the factor; the payroll portion, 25 percent; and the sales portion, 50 percent. The property portion of the factor is based on the average value of the business' real and tangible personal property owned or rented in the state as compared to everywhere. The payroll portion is based on the total compensation paid in the state as compared to everywhere. For members of a sports team, compensation in the state is based on the proportion of a season that a team is performing within the state. If compensation by the business is for persons other than members of the sports team, and the services performed are only partially within the state but for which there is some other substantial business connection to the state, the compensation is counted as being performed within the state. The sales portion is based on gross receipts in the state as compared to everywhere. Gross receipts include gate receipts, radio and television receipts, and concessions.

A referendum clause is included directing the Secretary of State to submit the act to the people at the next general election in accordance with Article II, Section 1 of the State Constitution.

**Appropriation:** None.

**Fiscal Note:** Requested on March 1, 2005.

**Effective Date:** The bill takes effect 90 days after adjournment of session in which bill is passed.